

Message Text

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SUBJECT: FINANCE MINISTER SIMONSEN TESTIFIES BEFORE
PARLIAMENTARY COMMISSION ON MULTINATIONALS

1. SUMMARY: IN A MARATHON EIGHT-HOUR SESSION BEFORE THE PARLIAMENTARY COMMISSION OF INQUIRY ON MULTINATIONALS, FINANCE MINISTER SIMONSEN DEFENDED THE ROLE OF FOREIGN CAPITAL IN BRAZIL. THE PRINCIPAL THEME OF HIS PRESENTATION WAS THAT AT THIS STAGE OF ITS DEVELOPMENT BRAZIL NEEDS THE CAPITAL AND TECHNOLOGY PROVIDED BY THE MULTINATIONALS AND THAT THE GOVERNMENT ALREADY POSSESSES THE NECESSARY TOOLS TO ASSURE THAT THE ACTIONS OF THESE ENTITIES CONFORM TO THE NATIONAL INTEREST. DURING QUESTION AND ANSWER PERIOD, SIMONSEN ALSO SAID THAT THE FOREIGN DEBT IS A MAJOR CONCERN OF THE GOVERNMENT AND THAT IT IS NOT AVIABLE FOR PRODUCERS OF OTHER PRIMARY COMMODITIES TO EMULATE OPEC. END SUMMARY.

2. IN HIS PREPARED TESTIMONY, SIMONSEN MADE THE FOLLOWING
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MAJOR POINTS;

A. ROLE OF FOREIGN INVESTMENT: GIVEN BRAZIL'S CURRENT STATE OF ECONOMIC DEVELOPMENT, PARTICULARLY IN LIGHT OF ITS PRESENT BALANCE OF PAYMENTS DIFFICULTIES, FOREIGN CAPITAL--BOTH IN THE FORM OF DIRECT INVESTMENT AND BANK LOANS 0 IS ESSENTIAL FOR AN ADEQUATE SOLUTION OF ITS ECONOMIC PROBLEMS. HE STATED THAT, LIKE OTHER COUNTRIES RECEIVING DIRECT INVESTMENT, IT IS IMPORTANT FOR BRAZIL TO HAVE AT ITS DISPOSAL THE LEGAL AND ADMINISTRATIVE MECHANISMS CAPABLE OF HARMONIZING THE INTERESTS OF THE MULTINATIONALS WITH THOSE OF THE HOST COUNTRY. HE CONCLUDED THAT BRAZIL ALREADY HAS THESE MECHANISMS IN PLACE.

B. ELABORATING ON THIS CENTRAL THEME, SIMONSEN MAINTAINED THAT A COUNTRY CAN RECONCILE THE ACTIONS OF THE MULTINATIONALS WITH THE NATIONAL INTEREST BY OBSERVING THE FOLLOWING PRINCIPLES:
--TO GUARANTEE THAT LOCAL CAPITAL CONTROLS STRATEGIC SECTORS OF THE ECONOMY;
--TO PREVENT ABUSES IN THE REMITTANCE OF PROFITS;
--TO PREVENT DISGUISED PROFIT REMITTANCES, SUCH AS THROUGH UNDER-INVOICING OF EXPORTS, OVER-INVOICING OF IMPORTS, THE PAYMENT OF INTEREST RATES ABOVE MARKET RATES, OR INFLATED PAYMENTS FOR ROYALTIES AND TECHNICAL ASSISTANCE;
--TO CONTROL THE ACCESS OF THE MULTINATIONALS TO LOCAL SOURCES OF SAVINGS;
--TO ASSURE THAT MULTINATIONAL ENTERPRISES FIT INTO THE NATIONAL OBJECTIVES OF IMPORT SUBSTITUTION AND EXPORT EXPANSION.

C. WITH RESPECT TO THE FIRST OF THESE PRICIPLES, I.E., CONTROL OF STRATEGIC SECTORS OF THE ECONOMY BY LOCAL CAPITAL, SIMONSEN INDICATED THAT A NUMBER OF LEGAL TOOLS EXIST TO BRING THIS ABOUT IN ORDER TO EXPLAIN HOW THIS WORKS IN BRAZIL, HE DIVIDED THE BRAZILIAN ECONOMY INTO THREE GROUPS: ACTIVITIES OPERATING UNDER DIRECT AUTHORIZATION OF THE GOVERNMENT, UNCLASSIFIED

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SUCH AS PUBLIC UTILITIES AND FINANCIAL INSTITUTIONS; ACTIVITIES OPERATING UNDER SPECIAL GOVERNMENT INCENTIVES, SUCH AS THOSE RECEIVING SUBSIDIZED CREDITS FROM THE BNDE, AND VARIOUS FISCAL INCENTIVES; AND ACTIVITIES WHICH ARE COMPLETELY FREE. HE THEN EXPLAINED THAT ALL STRATEGIC SECTORS, SUCH AS THE STEEL AND PETROLEUM INDUSTRIES, EITHER OPERATE UNDER DIRECT AUTHORIZATION OF THE GOVERNMENT OR OPERATE UNDER SPECIAL GOVERNMENT

INCENTIVES,
HENCE, THE GOVERNMENT HAS EFFECTIVE CONTROL
OVER THESE SECTORS.

D. ADDRESSING THE PROBLEM OF FOREIGN DOMINATION
OF BRAZILIAN ECONOMY, SIMONSEN NOTED THAT THE STATISTICS
DISPROVE ANY SUCH HYPOTHESIS. TOTAL FOREIGN CAPITAL
CORRESPONDS TO ABOUT 6.5 PERCENT OF THE NATIONAL PRODUCT
AND ONLY 3 PERCENT OF THE TOTAL STOCK OF CAPITAL. HE ADMITTED,
HOWEVER, THAT WHAT IS TRUE FOR THE WHOLE ECONOMY MAY
NOT BE TRUE FOR INDIVIDUAL INDUSTRIES. BUT HE WAS
QUICK TO ADD THAT THE WAY TO BRING ABOUT A BETTER
EQUILIBRIUM BETWEEN DOMESTIC CAPITAL AND FOREIGN
CAPITAL IS NOT TO DECREASE THE ROLE OF THE LATTER BUT
TO INCREASE THAT OF THE FORMER. HE NOTED THE VARIOUS
STEPS TAKEN BY THE GEISEL ADMINISTRATION TO ASSURE
A BETTER BALANCE AMONG THE BRAZILIAN PRIVATE SECTOR,
THE MULTINATIONALS AND THE LARGE STATE ENTERPRISES.

E. WITH RESPECT TO THE SECOND PRINCIPLE, I.E.,
AVOIDING ABUSES IN THE REMITTANCES OF PROFITS, SIMONSEN
EXPLAINED THAT, WHILE THE EXISTING LEGISLATION DOES NOT
PLACE LIMITS ON TOTAL PROFITS REMITTED, IT DOES SET VERY
SEVERE PENALTIES, IN THE FORM OF COMPLEMENTARY INCOME
TAX RATES, ON REMITTANCES OVER 12 PERCENT PER YEAR. IN
ADDITION, HE STATED THAT THIS WAS REALLY A MOOT QUESTION.
SINCE THE EFFECTIVE RATE OF PROFIT REMITTANCE HAS BEEN
BELOW 6 PERCENT PER YEAR OF INVESTED CAPITAL.

F. SIMONSEN THEN EXPLAINED HOW THE ADMINISTRATIVE
MACHINERY OF CACEX, THE CENTRAL BANK, AND INPI, THE EXISTENCE
OF BILATERAL TAX TREATIES WITH MAJOR TRADING PARTNERS
PLUS TARIFFS AND EXPORT INCENTIVES REDUCE TO A MINIMUM
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THE POSSIBLE INTEREST OF MULTINATIONALS TO DISGUISE
PROFIT OR INTEREST REMITTANCES BY OVER-INVOICING
IMPORTS AND UNDER-INVOICING EXPORTS.

G. ON THE QUESTION OF ACCESS BY MULTINATIONALS
TO LOCAL SOURCES OF SAVINGS, SIMONSEN CITED THE
EXISTING REGULATIONS WHICH LIMIT THEIR ACCESS TO
DOMESTIC SAVINGS. HE MENTIONED SPECIFICALLY THAT
PUBLIC FINANCIAL INSTITUTIONS ONLY MAKE MEDIUM AND LONG-
TERM LOANS TO FIRMS CONTROLLED BY LOCAL CAPITAL, THAT
THE CENTRAL BANK MUST APPROVE NEW ISSUES OF STOCKS AND
BONDS, THAT EACH FINANCIAL INSTITUTION IS OBLIGATED TO
MAKE AT LEAST 50 PERCENT OF ITS TOTAL LOANS TO BRAZILIAN FIRMS,
AND THAT VARIOUS CENTRAL BANK RESOLUTIONS REQUIRE
INSTITUTIONAL INVESTORS TO PLACE A CERTAIN PORTION OF

THEIR FUNDS IN ASSETS OF DOMESTIC PRIVATE FIRMS.

H. ON THE GENERAL QUESTION OF HARMONIZING THE ACTIONS OF THE MULTINATIONALS TO THE NATIONAL INTEREST, SIMONSEN CONCLUDED THAT THIS COULD NOT POSSIBLY BE ACCOMPLISHED BY LEGISLATION SINCE FOREIGN CAPITAL CANNOT BE OBLIGATED TO PRODUCE OR SELL AGAINST ITS WISHES. HE OPINED THAT THIS COULD BE ACHIEVED INSTEAD BY USING EXISTING TOOLS.

3. DURING THE QUESTION AND ANSWER PERIOD, SIMONSEN MADE THE FOLLOWING ADDITIONAL INTERSTING POINTS:

A. THE FOREIGN DEBT, WHICH CURRENTLY AMOUNTS TO ABOUT \$20 BILLION, IS A MAJOR PREOCCUPATION OF THE GOVERNMENT. HE DID NOT SEE THIS LEVEL OF DEBT AS A CAUSE FOR ALARM. HE INDICATED, HOWEVER, THAT THE FOREIGN DEBT CANNOT CONTINUE TO INCREASE AT THE RATE OF THE PAST FEW YEARS AND THAT THE TRADE DEFICIT MUST BE BROUGHT UNDER CONTROL. WHILE CONSCIOUS OF THE SEED TO REDUCE THE EXTERNAL DEFICIT, BRAZIL HOPES IN THE PROCESS TO AVOID A MAJOR ECONOMIC RECESSION.

B. SIMONSEN DID NOT BELIEVE THAT IT WOULD BE VIABLE FOR PRODUCERS OF OTHER PRIMARY COMMODITIES, SUCH AS COFFEE AND SUGAR, TO TRY TO IMITATE OPEC.
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C. IN REPLY TO A QUESTION ABOUT THE DOMINENT ROLE OF THE MULTINATIONALS IN THE LOCAL PHARAMCEUTICAL INDUSTRY, SIMONSEN SAID THIS WAS INEVITABLE SINCE ONLY THE MULTI-NATIONALS CAN MOBILIZE THE RESOURCES FOR RESEARCH AND DEVELOPMENT REQUIRED IN THIS AREA.
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